

State of California

Office of
Risk and
Insurance
Management

Annual
Report

fiscal periods

1994-1995

1995-1996

mission Statement

To create a partnership between the Office of Risk and Insurance Management and its clients and to act as a resource for quality risk management services to State agencies and other clients. On a consistent basis, ORIM shall provide continually improving services in a responsive, knowledgeable manner which results in a high degree of customer satisfaction.

total quality
Management

Contents

	Page
INTRODUCTION	1
Purpose	1
A Brief History	1
What Is Risk Management?	1
 ACCOMPLISHMENTS	 3
Fiscal Period 1994–95	3
Fiscal Period 1995–96	5
New Insurance Procurement Plan	5
CSU Risk Pool	6
CSU Tort Liability Claim Handling	6
Sacramento County Tort Claim Handling	7
State Tort Liability Review	7
 MAJOR PROGRAMS AND SERVICES	 9
Insurance Services Unit	9
Loss Control Unit	9
Claims Unit	10
In-Home Supportive Services (IHSS) and Greater Avenues for Independence (GAIN)	12
Business Enterprise Program (BEP)	12
 Exhibit 1 Schedule of Life & Health Premiums	5
Exhibit 2 Summary of Insurance Premiums	9
Exhibit 3 Program/Personnel Trained	10
Exhibit 4 Claims Unit Statistics	11
Exhibit 5 IHSS and GAIN Statistics	12
Exhibit 6 Schedule of Insurance Premiums for Business Enterprise Program	12
 Schedule of Property and Casualty Premiums	13
 ORIM Organizational Chart	inside back cover

commitment

ORIM IS COMMITTED TO ACHIEVING A PROGRAM OF TOTAL QUALITY MANAGEMENT.

Introduction

PURPOSE

This report covers the Office of Risk and Insurance Management's (ORIM) activities for the 1994–95 and 1995–96 fiscal periods. Its purpose is to summarize ORIM's accomplishments, provide information of interest to other State agencies and advise State agencies of the services that are available from ORIM.

A BRIEF HISTORY

The Office of Risk and Insurance Management (ORIM) is part of the Department of General Services. ORIM has been in existence, and has provided services to State and local public agencies, for more than 40 years. Upon request, it supplements risk management activities at State agencies and provides risk management and insurance consulting services to State agencies on an on-going or specific-project basis. ORIM is funded totally from fees charged to other State agencies/departments for its risk management and insurance services.

For many years it has been the practice of the State not to purchase insurance except when required by statute, bond or contract. Exceptions are rarely made to this practice.

WHAT IS RISK MANAGEMENT?

Risk management is the process by which risks of loss¹ are identified, analyzed and measured. Once analyzed and measured, the various techniques for managing risk are reviewed and the best technique or

¹ Loss of assets resulting from pure risk, including personnel, property and liability losses.

combination of techniques is applied to mitigate losses resulting from identified risks. In other words, risk managers determine where losses can occur and find appropriate mechanisms to eliminate or keep losses at manageable levels.

Techniques for handling exposures to loss include avoiding or eliminating an activity that might cause a loss, controlling or preventing a loss, transferring the liability for a loss to someone else and financing expected loss. Avoiding or eliminating a loss is as simple as just not doing the “thing” that could cause a loss. Prevention usually involves modifying premises to keep the loss from occurring or to minimize the cost of losses that do occur, and control usually involves active participation in control activities such as safety management, compliance with Cal-OSHA requirements, safety meetings, safety awards, etc. Contracts generally are used to transfer risk of loss to another person or entity and financing risks can be accomplished by either purchasing insurance or self-insuring.

ORIM helps State agencies manage their exposures to loss. Loss exposures can include, but are not limited to, operation of motor vehicles on State business, State-planned functions and general operations of the State or local agency. Loss exposures also can arise out of contractual arrangements with outside parties. ORIM assists State agencies with contract risks, assumption or transfer by reviewing contracts and assisting State agencies in revising contract language to reduce the potential loss arising from contracts. Upon request, ORIM will provide these services to local public agencies.

ORIM’s mission is as follows:

To create a partnership between the Office of Risk and Insurance Management and its clients and to act as a resource for quality risk management services to State agencies and other clients. On a consistent basis, ORIM shall provide continually improving services in a responsive and knowledgeable manner which results in a high degree of customer satisfaction.

Accomplishments

FISCAL PERIOD 1994–95

During the 1994–95 fiscal period, ORIM developed and implemented a revised insurance procurement plan (Plan) designed to

- ◆ Increase competition among the brokers wishing to provide service to State agencies through ORIM.
- ◆ Provide broader opportunities for participation in the State’s insurance program for minority/women/disabled veterans business enterprises.
- ◆ Ensure that the State receives the best service and insurance coverage for the best possible price.

The insurance policies purchased through ORIM were grouped so that, where possible, insurance covering the same State agencies were in a single group which represented enough premium to be attractive to the brokers that would compete for the business. Eight groups were established.

- ◆ Business Enterprise Program (BEP)¹
- ◆ California State University (CSU)
- ◆ Capitol Area Development Authority (CADA)
- ◆ Century Freeway Housing Project (Department of Housing and Community Development)²
- ◆ Department of Veterans Affairs (DVA)

¹ This program includes property and liability insurance as well as employee benefits for blind vendors and is sponsored by the Department of Rehabilitation.

² As of the date of publication of this report, this program is no longer managed by ORIM.

- ◆ Employee Benefits
- ◆ Balance of Business (BOB)³

Total estimated premium for all eight groups was \$17,000,000 for the 1994–95 fiscal year.

Our target date for implementation of the Plan was July 1, 1995. Due to timing constraints and workload considerations, the number of programs put out for competitive bid was limited to four. The four groups and the estimated premium for each group is shown below.

PROGRAM GROUP	ESTIMATED PREMIUM
CSU	\$1,200,000
CADA	\$232,000
CENTURY FREEWAY HOUSING PROJECT	\$517,000
BOB	\$2,400,000

Four requests for proposals (RFP), one for each group, were sent to interested insurance brokers or agents. The proposals were evaluated and the following brokers were selected based on services offered and cost of services:

PROGRAM GROUP	BROKER
CSU	SEDGWICK JAMES
CADA	JARDINE INSURANCE BROKERS (STOCKTON) ⁴
CENTURY FREEWAY HOUSING PROJECT	JARDINE INSURANCE BROKERS ⁵ (LOS ANGELES)
BOB	NEAR NORTH INSURANCE BROKERAGE

³ This group consists of insurance policies for a number of State agencies. The number of policies and premium paid for each State agency did not warrant a separate grouping. During the course of designing and implementing the revised insurance procurement plan, this group of insurance policies was given the acronym “BOB.”

⁴ Jardine Insurance Brokers (Jardine) was recently acquired by Alexander & Alexander (A&A). Because of ORIM client requirements, the CADA insurance program is handled by Jardine’s Stockton office. The Century Freeway Housing Project insurance program was handled by Jardine’s Los Angeles office (now A&A).

⁵ The Century Freeway account is no longer a State agency. As of the publication of this report, ORIM does not handle this account.

FISCAL PERIOD 1995–96

During the 1995–96 fiscal period, ORIM continued to implement the revised insurance procurement plan, which was started during the 1994–95 fiscal period. The employee benefits group of insurance policies was put out to bid for broker services. See details below.

ORIM also had new opportunities to provide services to State agencies/ departments and other local public entities.

- ◆ ORIM implemented a pilot program to handle CSU’s tort liability claims under its new “risk pooling” program for liability exposures.
- ◆ ORIM was engaged to handle the County of Sacramento’s third-party liability (tort) claims under \$5,000.
- ◆ At ORIM’s request, the State’s independent risk management consultant conducted a limited review of the State’s tort liability claims-processing system.

New Insurance Procurement Plan

The employee benefits group of insurance policies was put out for competitive bid for broker services under the new insurance procurement plan. This group of policies generates an estimated \$8,000,000 in premium (see Exhibit 1). After evaluation of the proposals received in response to the RFP, the group remained with the “holding” broker, Saylor & Hill, based on service and cost of services.

EXHIBIT 1

SCHEDULE OF LIFE & HEALTH PREMIUMS

	FISCAL YEAR 1994–95	FISCAL YEAR 1995–96
ASSEMBLY RULES COMMITTEE	\$ 91,200	\$ 91,200
FISH & GAME	600	1,500
FORESTRY	55,800	32,100
MASTER POLICIES	112,300	100,000
MILITARY	1,600	7,100
PERSONNEL ADMINISTRATION	7,430,300	7,505,300
TOTAL	\$7,691,800	\$7,737,200

CSU Risk Pool

CSU followed the usual State practices not to purchase insurance unless required by statute, bond or contract. Effective January 1, 1996, CSU established a risk pool for all of its third-party liability and workers' compensation risks. Although implementation of this risk pool reduced the number of insurance policies purchased using ORIM, CSU chose to use ORIM as its third-party administrator for liability claims handling (see below). CSU's insurance portfolio for property exposures continued to be placed using ORIM's services.

CSU Tort Liability Claim Handling

Tort⁶ liability claims for all State agencies normally are handled and settled through the State Board of Control⁷ (BOC) with some exceptions. CSU is one of those exceptions. It was granted permission to handle its own tort liability claims⁸ without approval of the BOC, although tort claims still must be reported initially to the BOC.

With the establishment of CSU's risk pool and permission to settle its own tort liability claims, CSU had the option of hiring a third-party administrator, continuing to handle and settle claims through the BOC, or using ORIM claims-handling services. CSU decided to use ORIM to handle its tort liability claims under an 18-month pilot program.

Claims are reported to the BOC for assignment of a claim number and are then sent to ORIM's claims unit. An ORIM claims analyst sets up a file and investigates the claim in conjunction with the Campus risk manager. The ORIM claims analyst recommends a resolution of the claim and, upon authorization from CSU, concludes the claim. To date, the operation of this program has been very satisfactory for both CSU and ORIM.

⁶ A tort is a wrongful act, other than a breach of contract, for which a party injured by the wrongful act may seek relief in the form of damages.

⁷ Tort liability claim handling for the State is a complex topic and was the subject of a study conducted by the State's risk management consultant. Highlights of this study are discussed in a separate section later in this report.

⁸ Education Code §89750.5.

Sacramento County Tort Claim Handling

Effective in January 1996, the County of Sacramento (County) contracted with ORIM to provide administration services for its third-party property damage claims under \$5,000 per claimant in damages.

The County sends initial reports of third-party property damage claims to ORIM by fax so that the investigation and adjustment process can begin immediately. A hard copy of the claim follows by mail and usually is received within 48 hours of the date of mailing. Inspection of the damaged property is made by ORIM personnel and settlements are negotiated on the County's behalf.

This program has proven very successful for both the County and ORIM.

State Tort Liability Review

A limited review of the State's tort liability claims processing systems was conducted by the State's independent risk management consultant. The purpose of this study was to determine the total cost of the State's tort liability claims and to report on how tort liability claims are processed through the existing systems.

By statute,⁹ all tort liability claims against the State must be processed through the BOC. The only exception to this requirement¹⁰ is the University of California, which is not considered to be part of the State systems for purposes of risk management and insurance, including tort liability claims.

The estimated cost of the State's tort liability claims is \$70,000,000 for the 1994–95 fiscal period. Because so many State departments and agencies must be involved in the claim process before payment is authorized for those claims that should be paid, there is no easy way to determine the actual cost of these claims to the State.

⁹ Government Code (GC) §900.2 and GC §905.2.

¹⁰ GC §905.6.

While the intent of the State Tort Claims Act is to “correct the conditions or practices which give rise to claims,” the study found that claims information, for the most part, is not used to identify where safety and loss prevention efforts can best be utilized or improved.

The study also found that claims data is collected at a number of different points, but there is no central data-collection or reporting point where accurate and complete information can be gathered. Thus, it is difficult to use tort liability claim information to identify areas where safety and loss-prevention efforts should be stepped up to prevent losses of the same type.

Our consultant recommended that the State consider

- ◆ Establishing a central data-collection/reporting point.
- ◆ Using a computerized risk-management-information system capable of maintaining claim information to help the State better manage its claims and improve its safety and loss-prevention programs.

Major Programs and Services

As shown in the organization chart, ORIM is organizationally divided into three major operating units that provide risk management and insurance services to other State agencies:

- ◆ Insurance Services Unit
- ◆ Loss Control Unit
- ◆ Claims Unit

The above operating units are supported by an Administrative Unit.

INSURANCE SERVICES UNIT

It is generally the State's policy not to purchase insurance unless required by statute, bond or contract. Most insurance purchases for State agencies are made through ORIM. Insurance premiums placed by ORIM for these agencies totalled about \$17,000,000 in the 1994–95 fiscal year and approximately \$18,000,000 in 1995–96. State agencies and the premium

for insurance purchased through ORIM are shown in the Schedule of Property and Casualty Premiums at the end of this report. See Exhibit 2 for a summary of insurance premiums.

EXHIBIT 2

SUMMARY OF INSURANCE PREMIUMS

	FISCAL YEAR 1994–95	FISCAL YEAR 1995–96
PROPERTY & CASUALTY	\$ 8,535,800	\$ 9,564,700
LIFE & HEALTH	7,691,800	7,737,200
BUSINESS ENTERPRISE PROGRAM	1,266,200	1,096,000
TOTAL	\$ 17,476,400	\$18,397,900

LOSS CONTROL UNIT

The Loss Control Unit administers the State's basic safety, defensive driver and first aid/CPR training programs. The defensive driver and first-aid/CPR training programs are available not only to State agencies but

EXHIBIT 3

PROGRAM/PERSONNEL TRAINED		
PROGRAM/PERSONNEL TRAINED	FISCAL YEAR 1994-95	FISCAL YEAR 1995-96
BASIC SAFETY TRAINING		
SAFETY COORDINATORS TRAINED	47	56
DEFENSIVE DRIVER TRAINING		
STATE EMPLOYEES —CLASSROOM	19,729	20,935
—INDIVIDUAL	29	14
SUBTOTAL	19,758	20,949
OTHER PUBLIC EMPLOYEES —CLASSROOM	2,206	1,973
—INDIVIDUAL	1	6
SUBTOTAL	2,207	1,979
TOTAL	21,965	22,928
FIRST-AID/CPR TRAINING —CLASSROOM		
STATE EMPLOYEES	3,697	3,289
OTHER PUBLIC EMPLOYEES	0	17
TOTAL	3,697	3,306
TOTAL EMPLOYEES TRAINED/ALL PROGRAMS	25,709	26,290

- ♦ County of Sacramento third-party property damage liability claims under \$5,000²
- ♦ Motor vehicle first-party physical damage claims for members of the legislature

Statistics for these programs are shown in Exhibit 4.

EXHIBIT 4

CLAIMS UNIT STATISTICS

PROGRAM*	FISCAL YEAR 1994-95	FISCAL YEAR 1995-96
MOTOR VEHICLE LIABILITY		
CLAIMS OPENED	2,091	1,769
CLAIMS CLOSED	2,264	2,264
COST OF CLAIMS CLOSED	\$16,776,901	\$14,799,584
FOSTER CARE LIABILITY INSURANCE		
CLAIMS OPENED	66	43
CLAIMS CLOSED	37	48
COST OF CLAIMS CLOSED	\$540,559	\$280,406
CALIFORNIA STATE UNIVERSITY RISK POOL		
CLAIMS OPENED	—	162
CLAIMS CLOSED	—	92
COST OF CLAIMS CLOSED	—	\$9,824
SACRAMENTO COUNTY PROPERTY DAMAGE LIABILITY		
CLAIMS OPENED	—	200
CLAIMS CLOSED	—	157
COST OF CLAIMS CLOSED	—	\$35,882
MOTOR VEHICLE PHYSICAL DAMAGE		
CLAIMS OPENED	57	57
CLAIMS CLOSED	57	57
COST OF CLAIMS CLOSED	\$69,236	\$108,741

*COST OF CLAIMS INCLUDES ADJUSTING AND LEGAL COSTS FOR ALL PROGRAMS.

For the first time in five years, the Motor Vehicle Insurance Account (MVIA) had a positive closing reserve fund balance of \$1,388,595; i.e., claims costs were less than premiums collected from State agencies/departments. Premium rates charged to State agencies/departments for the State's self-insured motor vehicle claims were not increased during the State's budget crisis in the early 1990s. These artificially low premium rates did

not develop adequate premiums to cover losses, resulting in deficits in the MVIA. Premium rates were increased in the 1995-96 fiscal period. The effects of increased premium rates plus fewer claims opened and closed and lower claims costs accounts for this marginal improvement in the MVIA. However, the reserve fund is still inadequate and several more years of positive balances are required to restore the working reserve to the appropriate \$5 million level.

² Program began in January 1996.

IN-HOME SUPPORTIVE SERVICES (IHSS) AND GREATER AVENUES FOR INDEPENDENCE (GAIN)

The Department of Social Services supports the IHSS and GAIN programs. The IHSS program provides assistance to eligible aged, blind and disabled individuals who are unable to remain safely in their own homes without assistance. The GAIN program provides education, training, including employment search, vocational training, on-the-job training and employment counseling, vocational assessment and pre-employment preparation (non-salaried work experience).

Self-insured workers' compensation losses for these two programs are adjusted by the State Compensation Insurance Fund (SCIF) and managed and monitored by the Loss Control Unit of ORIM. The number and cost of claims handled under these programs are shown in Exhibit 5.

EXHIBIT 5

IHSS AND GAIN STATISTICS		
PROGRAM ¹²	FISCAL YEAR 1994-95	FISCAL YEAR 1995-96
IHSS		
NUMBER OF CLAIMS	982	1,089
COST OF CLAIMS CLOSED	\$15,105,760	\$16,974,983
GAIN		
NUMBER OF CLAIMS	139	202
COST OF CLAIMS CLOSED	\$366,749	\$661,894
*COST OF CLAIMS INCLUDES ADJUSTING AND LEGAL COSTS FOR ALL PROGRAMS.		

BUSINESS ENTERPRISE PROGRAM (BEP)

The purpose of the BEP is to train, license and provide business opportunities to legally blind adults as operators of vending stands and food-service facilities. This program, which is sponsored by the Department of Rehabilitation (DOR), is funded through State and federal funds.

The Insurance Services Unit of ORIM, on behalf of DOR, manages the insurance program for the property and liability insurance covering the vendors' exposures under this program. The Insurance Services Unit also manages the life and health insurance programs covering these vendors. Total insurance premiums for this program for the 1994-95 year was approximately \$1,266,200 as compared to \$1,096,000 for the 1995-96 fiscal period. See Exhibit 6.

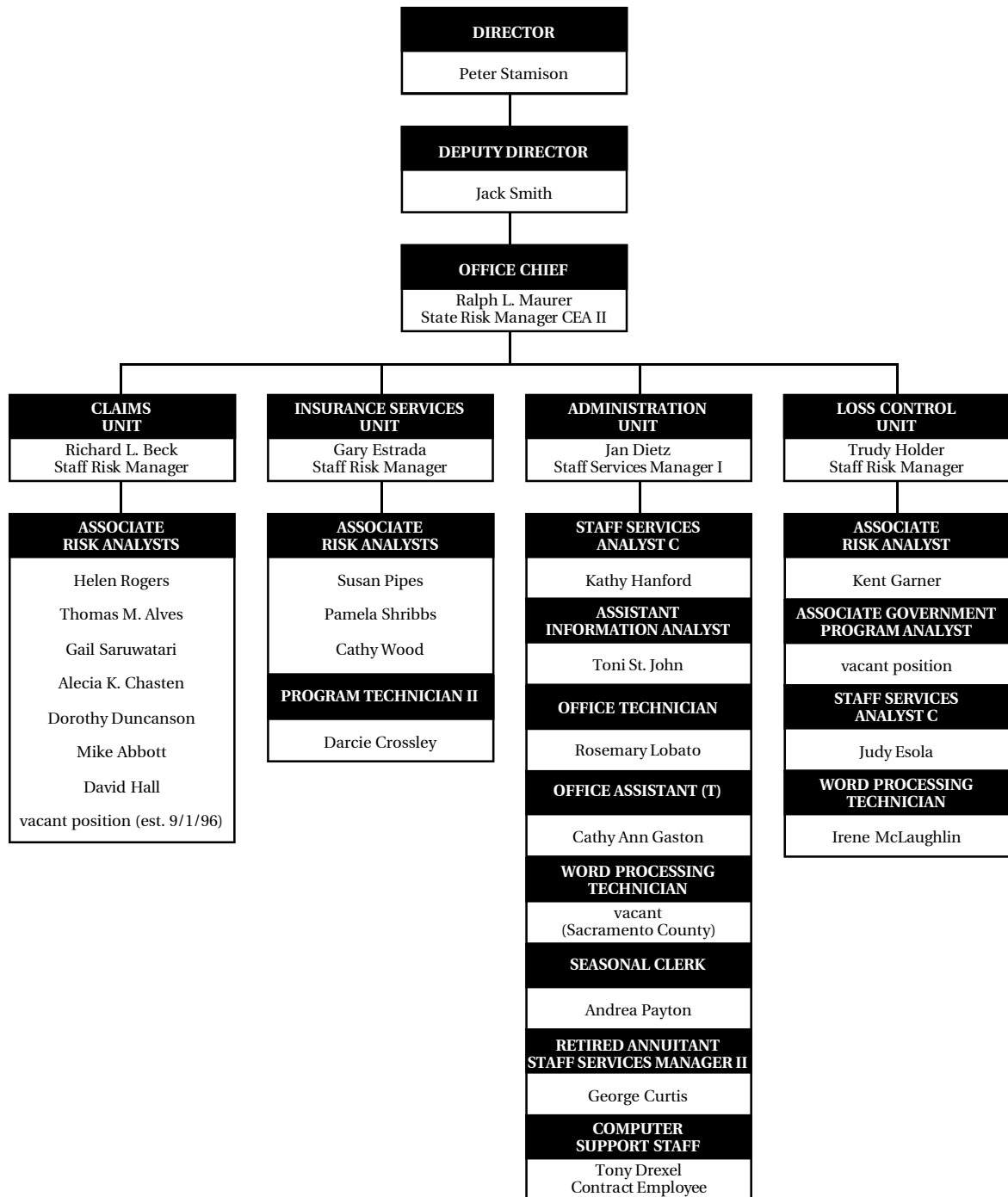
EXHIBIT 6

SCHEDULE OF INSURANCE PREMIUMS FOR BUSINESS ENTERPRISE PROGRAM		
	FISCAL YEAR 1994-95	FISCAL YEAR 1995-96
PROPERTY & CASUALTY	\$ 178,000	\$ 178,000
LIFE & HEALTH	1,088,200	918,000
TOTAL	\$1,266,200	\$1,096,000

SCHEDULE OF PROPERTY, CASUALTY, LIFE AND HEALTH INSURANCE PREMIUMS

	FISCAL YEAR 1994-95	FISCAL YEAR 1995-96
IA DISTRICT AGRICULTURAL ASSOCIATION	\$6,800	\$16,400
ATTORNEY GENERAL	0	25,100
BUSINESS ENTERPRISE PROGRAM	1,266,200	1,096,000
CALIFORNIA MUSEUM OF SCIENCE & INDUSTRY	0	35,000
CALIFORNIA PUC COMMISSION	0	20,500
CALIFORNIA STATE BUILDING AUTHORITY	33,600	34,400
CALIFORNIA STATE UNIVERSITY (CSU)	1,205,100	522,678
CALIFORNIA TOWERS	0	23,600
CAPITOL AREA DEVELOPMENT AUTHORITY	232,000	180,000
CENTURY FREEWAY HOUSING	517,000	0
CORRECTIONS	847,000	953,700
DEVELOPMENTAL DISABILITY BOARDS	0	15,900
EAST BAY STATE BUILDING	27,400	27,500
EQUALIZATION, BOARD OF	0	133,000
FOOD & AGRICULTURE	38,000	37,900
FRANCHISE TAX	78,100	63,000
GENERAL SERVICES	70,100	70,500
HEALTH & WELFARE AGENCY DATA CENTER	25,800	25,000
HIGHWAY PATROL	56,100	56,800
HOUSING FINANCE AGENCY	1,242,600	1701,000
JOINT POWERS CITY OF SAN BERNARDINO	0	48,800
JUST KIDS	0	61,700
JUSTICE	0	32,700
LIFE & HEALTH INSURANCE	7,691,800	7,737,200
LOS ANGELES STATE BUILDING AUTHORITY	79,300	94,700
LOTTERY	60,500	60,800
MASTER POLICIES	177,200	177,000
METROPOLITAN STATE HOSPITAL	23,900	23,900
MILITARY	5,800	17,400
MISCELLANEOUS POLICIES UNDER \$15,000 IN PREMIUM	98,080	113,100
NARCOTICS, BUREAU OF	0	32,600
PERS	15,900	15,700
SAN FRANCISCO STATE BUILDING AUTHORITY	18,900	18,900
STRS	265,200	260,700
TRANSPORTATION	34,500	97,300
VETERANS AFFAIRS	3,367,800	4,521,900
WATER RESOURCES	9,200	45,500
TOTAL	\$17,476,400	\$18,397,900

Office of Risk and Insurance Management





STATE OF CALIFORNIA
OFFICE OF RISK AND INSURANCE MANAGEMENT
1325 J STREET, SUITE 1800
SACRAMENTO, CA 95814
TELEPHONE 916/445-2184 FAX 916/327-5776